Georgia Housing and Finance Authority, Atlanta, GA

Federal Housing Administration – Home Affordable Modification Program

Office of Audit, Region 4
Atlanta, GA

Audit Report Number: 2016-AT-1011
August 5, 2016

To: Robert E Mulderig, Acting Deputy Assistant Secretary for Single Family Housing, HU

//signed//

From: Nikita N. Irons, Regional Inspector General for Audit, 4AGA

Subject: The Georgia Housing and Finance Authority, Atlanta, GA, Did Not Adequately Implement the Federal Housing Administration's Home Affordable Modification Program in Accordance With HUD's Requirements

Attached is the U.S. Department of Housing and Urban Development (HUD), Office of Inspector General's (OIG) final results of our review of the Georgia Housing and Finance Authority.

HUD Handbook 2000.06, REV-4, sets specific timeframes for management decisions on recommended corrective actions. For each recommendation without a management decision, please respond and provide status reports in accordance with the HUD Handbook. Please furnish us copies of any correspondence or directives issued because of the audit.

The Inspector General Act, Title 5 United States Code, section 8M, requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at http://www.hudoig.gov.

If you have any questions or comments about this report, please do not hesitate to call me at (404)-331-3369.

Audit Report Number: 2016-AT-1011
Date: August 5, 2016

The Georgia Housing and Finance Authority, Atlanta, GA, Did Not Adequately Implement the Federal Housing Administration's Home Affordable Modification Program in Accordance With HUD's Requirements

Highlights

What We Audited and Why

We audited the Georgia Housing and Finance Authority's implementation of the Federal Housing Administration's Home Affordable Modification Program (FHA-HAMP). We selected the Authority because (1) our data analysis showed that the Authority had the highest ratio of FHA-HAMP actions to delinquent loans within the jurisdiction of our regional office, (2) the U.S. Department of Housing and Urban Development (HUD) office located in Atlanta, GA, performed a review in 2012 that identified multiple loss mitigation and servicing deficiencies, and (3) it was part of our annual audit plan. Our audit objective was to determine whether the Authority properly implemented its FHA-HAMP in accordance with HUD's requirements.

What We Found

The Authority did not adequately implement its FHA-HAMP in accordance with HUD's requirements. Specifically, it did not (1) comply with the market rate condition required for FHA-HAMP stand-alone partial claims, (2) ensure that the borrowers successfully completed their trial payment plans, (3) support that it properly evaluated and independently verified the borrowers' financial information, and (4) support that it properly calculated the partial claim and loan modification amounts. As a result, HUD paid more than $1.1 million for 138 loans that were not eligible or supported for proper implementation of FHA-HAMP, including three active modified loans with unpaid principal balances of $241,031.

What We Recommend

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require the Authority to (1) reimburse HUD $160,013 for claims and incentive fees paid for 10 loans that were not FHA-HAMP eligible, (2) indemnify HUD for two active modified loans with total unpaid balance of $102,241 that were not FHA-HAMP eligible, (3) support or reimburse HUD $941,770 for claims and incentive fees paid on 124 loans that may not have been eligible for FHA-HAMP, (4) support or reimburse HUD $74,767 for partial claims and incentive fees paid for three loans that were not supported as eligible for FHA-HAMP, (5) support or indemnify HUD for one active modified loan with unpaid balance of $138,790 that was not supported as eligible for FHA-HAMP, and (6) improve its written policies and procedures to ensure implementation of FHA-HAMP in accordance with HUD's requirements.

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Background and Objective

The Making Home Affordable (MHA) program provides homeowners the opportunity to reduce their mortgage payments by modifying their loan through the Home Affordable Modification Program (HAMP). When initially introduced, the program excluded Federal Housing Administration (FHA)-insured mortgages with the expectation that FHA would later develop its own stand-alone program. On July 30, 2009, the U.S. Department of Housing and Urban Development (HUD) issued Mortgagee Letter 2009-23, announcing the new FHA-HAMP, which is one of several options under FHA's loss mitigation home retention options. The lender must evaluate the delinquent borrower for the following options in the following order: (1) informal and formal forbearance plans,[1] (2) special forbearances,[2] (3) loan modification,[3] and (4) FHA-HAMP.

The objective of FHA-HAMP is to assist FHA homeowners who are in default in avoiding foreclosure. Through the use of a partial claim combined with a loan modification, the mortgage is reduced to an affordable payment. Under the partial claim option, lenders are authorized to advance funds to bring the mortgage current by buying down the loan for up to 30 percent of the unpaid principal balance. This option defers the repayment of the partial claim amount through an interest-free subordinate mortgage that is not due until the first mortgage is paid off.

Lenders that use the FHA-HAMP options are eligible to receive incentive payments of up to $1,250, including $500 for approving the use of a partial claim and $750 for the use of a loan modification. HUD pays the lender the partial claim amount plus the incentive fee after the lender submits the claim. Lenders must file a claim for insurance benefits for the partial claim within the 60-day timeframe to receive incentive fees for the FHA-HAMP loss mitigation action. The lender is also responsible for delivering a copy of the promissory note and recorded mortgage to HUD.

With the issuance of Mortgagee Letter 2012-22 on November 16, 2012, FHA-HAMP allowed the use of a stand-alone partial claim, a stand-alone loan modification, or a combination of both. Through Mortgagee Letters 2012-22 and 2013-32, HUD provided step-by-step guidance to the lender to help determine which home retention option may be appropriate for the delinquent borrower and the calculations for the partial claim and loan modification amounts under FHA-HAMP.

The Georgia Housing and Finance Authority, which merged with the Georgia Department of Community Affairs in 1996, is a Title II lender in Atlanta, GA. Its various programs are designed to provide low- and moderate-income people safe and affordable rental housing and to acquire and

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1 Informal forbearance plans are oral agreements for a period of up to 3 months. Formal forbearance plans are written agreements with a period of more than 3 and less than 6 months. These options are not eligible for incentive payments.

2 A special forbearance is a written agreement between a lender and a borrower who is unemployed to reduce or suspend the mortgage payments.

3 A loan modification is a permanent change to one or more of the loan terms.

maintain housing for home ownership and to help abate homelessness in the State. Proceeds derived from the issuance of mortgage revenue bonds as well as Federal and State funds support the Authority's home ownership programs. The money from the revenue bonds also goes toward the purchase of mortgages as the Authority does not underwrite loans. State Home Mortgage, an entity under the umbrella of the Authority, services the purchased loans. The proceeds from these mortgages are used to repay the bond holders.

We selected the Authority for audit because it had the highest ratio of FHA-HAMP actions to delinquent loans within specified limits. As of November 2015, the Authority serviced approximately 15,000 loans. The Authority's portfolio consists of FHA, U.S. Department of Veterans Affairs, Federal National Mortgage Association, and uninsured and insured conventional loans. As of December 2015, FHA loans accounted for 89 percent of the total number of loans and 92 percent of the total dollar value of loans.

Our audit objective was to determine whether the Authority properly implemented FHA-HAMP in accordance with Federal and HUD's requirements.

Results of Audit

Finding: The Authority Did Not Adequately Implement FHA-HAMP in Accordance With HUD's Requirements

The Authority did not adequately implement FHA-HAMP in accordance with HUD's requirements. Specifically, it did not (1) comply with the FHA-HAMP stand-alone partial claim market rate requirement, (2) ensure that the borrowers successfully completed the trial payment plan, (3) support that it properly evaluated and independently verified the borrowers' financial information, and (4) support that it properly calculated the partial claim and loan modification amounts. These loss mitigation deficiencies occurred because the Authority (1) mistakenly thought that its FHA-insured loans were exempted from one of the qualifying requirements for FHA-HAMP stand-alone partial claims and (2) did not have adequate written policies and procedures to ensure that its implementation of FHA-HAMP complied with HUD's requirements. As a result, HUD paid more than $1.1 million and insured $241,031 for 138 loans that were not eligible or supported as being eligible for FHA-HAMP.

We reviewed 22 loss mitigation loan files with FHA-HAMP claims processed between January 1, 2014, and September 30, 2015. We identified loss mitigation deficiencies with 14 of the 22 loss mitigation loan files (64 percent) reviewed in which the Authority did not comply or adequately support that the borrowers met all of the FHA-HAMP qualifying criteria in Mortgagee Letters 2013-32 and 2012-22. Applicable criteria can be found in appendix C.

FHA case number	Market rate requirement not met	Successful completion of trial payments not met	Verifiable loss of income or increase in expenses not supported	Incorrect partial claim and loan modification calculations
105-6387683	X		X	
105-5539870	X		X	
105-5804221	X		X	
105-2105142	X			
105-2747341	X			
105-5798660	X			
105-2912604	X			
105-6446384	X			
105-2822097		X		X
101-8481635		X	X	
105-7394963			X	
105-7377414			X	
105-7534978			X	

FHA case number	Market rate requirement not met	Successful completion of trial payments not met	Verifiable loss of income or increase in expenses not supported	Incorrect partial claim and loan modification calculations
105-3589300[4]				X
Totals	**8**	**2**	**7**	**2**

FHA-HAMP Stand-Alone Partial Claim Market Interest Rate Requirement Not Met

The Authority did not ensure that FHA-HAMP partial claims met the market rate requirement. According to Mortgagee Letter 2013-32, a lender may use an FHA-HAMP stand-alone partial claim without an accompanying loan modification if the borrower's current interest rate is at or below market rate.[5] Eight of the thirteen approved partial claim loans reviewed (62 percent) had interest rates that were above the market rate requirement and, therefore, were not permissible under FHA-HAMP. As a result, HUD paid $112,777 for partial claims and $4,000 for incentive fees for nine loans that were not eligible for an FHA-HAMP stand-alone partial claim.

FHA case number	Partial claim amount paid	Incentive fee amount paid	Borrower's mortgage interest rate percentage	Market rate percentage
105-6387683	$19,902	$500	5.250	4.380
105-5539870	27,136	500	5.125	4.480
105-5804221	26,515	500	5.375	4.620
105-2105142	7,699	500	5.500	4.560
105-2747341	5,214	500	5.000	4.350
105-5798660	11,086	500	5.375	4.120
105-2912604	7,946	500	5.625	4.170
105-6446384	7,279	500	5.500	4.380
Totals	**112,777**	**4,000**		

In response to this issue, the Authority stated that it received a variance from HUD that exempted its loans from the interest reduction requirement in Mortgagee Letter 2009-35 due to the restriction of its mortgage revenue bond program and had interpreted HUD's approved variance to include the FHA-HAMP stand-alone partial claim market rate requirement. HUD

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4 The loan was incorrectly identified as FHA-HAMP and was included in the universe of loans. However, the review determined that the loan was approved for a standard loan modification.

5 Mortgagee Letter 2013-17 defines the market rate as a rate that is no more than 25 basis points greater than the most recent Federal Home Loan Mortgage Corporation (Freddie Mac) weekly primary mortgage market survey rate for 30-year fixed-rate conforming mortgages (U.S. average), rounded to the nearest 1/8 of 1 percent (0.125), as of the date a trial payment plan is offered to a borrower.

National Servicing Center, which issued the variance to the Authority in November 2009, stated that its approval of the variance applied to the loan modifications and did not apply to the market rate requirement for the FHA-HAMP stand-alone partial claims, clarifying that if the condition was not met, the borrower would not be eligible for the FHA-HAMP stand-alone partial claim option. On April 11, 2016, the Authority requested a retroactive variance exemption from the market rate requirement to December 1, 2013, the effective date of Mortgagee Letter 2013-32. In response to the Authority's request, HUD stated that the Authority's bond documentation did not justify an approval for a variance associated with the FHA-HAMP stand-alone partial claim. Based on HUD's response, the Authority's FHA-insured loans that were approved for the FHA-HAMP stand-alone partial claim were not exempted from the market rate requirement.

In addition, the Authority had 124 loans that were processed between January 1, 2014, and September 30, 2015 with a stand-alone partial claim that may not be in compliance with the market rate requirement. Mortgagee Letter 2013-17 defines the market rate as a rate that is no more than 25 basis points greater than the most recent Federal Home Loan Mortgage Corporation (Freddie Mac) weekly primary mortgage market survey rate. The weekly market rates published by Freddie Mac showed that the market interest rates ranged from 3.34 to 4.58 percent for 2013, 3.80 to 4.53 percent for 2014, and 3.59 to 4.09 percent for 2015. The 124 partial claim loans had interest rates ranging from 3.125 to 7.375 percent, with the majority of the loans (98 of 124) having interest rates above 5 percent. Our review indicated that most of the 124 loans would not be eligible for an FHA-HAMP stand-alone partial claim because the mortgage interest rates for the loans were above the market interest rates. Therefore, the Authority received $60,000 for incentive fees and approved $881,770 in partial claims that may not have complied with HUD requirements. Appendix E contains a table detailing the information for the 124 partial claim loans.

The Authority did not ensure or support that the 132[6] loans it approved for the FHA-HAMP stand-alone partial claim option met the market rate requirement. This condition occurred because the Authority mistakenly thought that its FHA-insured loans were exempt from the requirement. As a result, HUD paid $116,777 in partial claims and incentive fees for eight loans that were not eligible for an FHA-HAMP stand-alone partial claim and $941,770 for partial claims and incentive fees for 124 loans that may not have met the market rate requirement for FHA-HAMP stand-alone partial claims.

Successful Completion of the Trial Payment Plan Not Met

The Authority did not ensure that the borrowers successfully completed the trial payment plan in accordance with the agreements. For two loans, the records showed that the Authority approved the borrowers for the FHA-HAMP loss mitigation option without ensuring that they successfully completed the trial payments according to the time schedule of the trial period plan agreement. It also did not document its reason for allowing the borrowers to continue with the FHA-HAMP loss mitigation option when they did not make the payments in a timely manner. Mortgagee Letter 2011-28 requires that the trial payment plan be for a minimum period of 3 months and the borrower make at least three full, consecutive monthly payments before final execution of the

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[6] The 132 loans included eight loans that did not meet the market rate requirement and 124 loans that may not have met the market rate requirement.

loan modification or the partial claim. A trial payment plan is considered to have failed when the borrower does not make the scheduled payment within 15 days of the trial payment plan due date. According to Mortgagee Letter 2013-32, if a borrower failed to complete the trial payment plan, the lender must reevaluate the borrower's eligibility for other loss mitigation options. If the borrower's financial circumstances have not changed, then the lender must evaluate for loss mitigation home disposition options before initiating foreclosure. As a result of the deficiencies described above, HUD paid $43,236 for partial claims and incentive fees for two loans with unpaid principal balance of $102,241 that did not meet the requirement for successful completion of the trial payment plans and were not eligible for FHA-HAMP actions. Summary details for the two loans can be found in appendix D of this report.

Loss of Income and Increase in Expenses Not Adequately Supported or Verified

For seven loans, the Authority did not support or verify that the borrowers experienced a loss of income or increase in living expenses as required for the FHA-HAMP loss mitigation options. The standard financial information the Authority obtained from the borrowers was not always sufficient to verify and substantiate that the borrowers had experienced a loss of income or an increase in living expenses as indicated in their hardship statements. The Authority staff stated that it considered the borrower eligible for FHA-HAMP if its analysis of the borrower's current monthly financial condition indicated excessive obligations or met the surplus income requirement. Therefore, it did not see the need to obtain additional documentation to verify whether the borrower had experienced a loss of income or an increase in living expenses. For instance, the Authority did not request proof of a reduction in income from a borrower who stated in his hardship letter that he had received workers compensation wages that were significantly less than his normal wages. It also did not ask for proof of payments from a borrower who stated that one of the reasons her expenses had increased was because she helped pay for her daughter-in-law's and grandchildren's rent and utilities. The requirements in Mortgagee Letters 2012-22 and 2013-32 state that to qualify for FHA-HAMP, the household or borrower(s) must experience a verifiable loss of income or increase in living expenses. Without verifiable documentation, the Authority could not have properly determined that the borrowers were qualified for the FHA-HAMP loss mitigation options.

In addition, the Authority did not always independently verify the borrowers' large expense payments to accurately calculate and determine their household monthly financial position. These large dollar expenses may impact the borrowers' loss mitigation options or whether they qualify for the program. For two of the seven loans, the Authority's calculations of the borrowers' monthly living expenses did not have proper supporting documentation in the loss mitigation loan files. For example, the Authority did not request proof of payment or have support for a reported $1,690 monthly childcare expense when the borrower's bank statements and other documents the Authority obtained did not support payments for the expense. Authority staff stated that it used the borrower's prior-year tax return's claim and the Internal Revenue Service (IRS) standard amount for childcare fees to substantiate its reason for not requesting proof of payment. The IRS standard can be referenced for the reasonableness of the cost, but it is not a form of verification or support for the expense that the borrower incurred. Mortgagee Letter 2009-23 states that regardless of how the borrower's financial information was secured, the lender must independently verify the financial information. Summary details for the seven loans can be found in appendix D of this report.

Incorrect Partial Claim and Loan Modification Calculations

The Authority did not properly calculate the partial claim and loan modification amounts for two loans. For one loan, the Authority submitted a partial claim amount of $30,646 that exceeded the maximum allowable by $2,378. Mortgagee Letter 2012-22 states that the maximum partial claim amount must be the lesser of: (1) the sum of arrearages, legal fees and foreclosure costs, and the principal deferment; or (2) 30 percent of the unpaid principal balance less existing partial claim amounts. Our calculation showed that the result for (1) was $28,268, and the result for (2) was $30,854. Thus, the partial claim amount should not have exceeded $28,268 as it was the lesser of the two options. In addition, we calculated a different gross monthly income for the mortgagor as the one calculated by the Authority cannot be supported. Our gross monthly income for the borrower resulted in a different modified loan balance and monthly mortgage payment. The Authority's calculation showed a modified loan balance and monthly mortgage of $77,514 and $615, respectively. We calculated a modified loan balance and monthly mortgage of $81,299 and $635, respectively. The Authority did not agree with our calculation of the partial claim amount, but agreed that it cannot support its calculation for the borrower's gross monthly income.

For the other loan, the Authority modified the borrower's loan balance to $109,277 with a monthly payment of $748. While the modified loan balance was correct, the monthly payment should have been $745. As a result, the borrower had a $3 monthly overpayment. The Authority agreed with our calculation. It adjusted the borrower's principal and interest and applied the total overpayment to reduce the borrower's unpaid principal balance. Summary details for the two loans can be found in appendix D of this report.

Adequate Written Policies and Procedures Were Not Establish For FHA-HAMP

The loss mitigation deficiencies identified above occurred because the Authority did not establish adequate written policies and procedures to ensure that HUD's requirements for FHA-HAMP were properly implemented. The Authority integrated HUD's general FHA loss mitigation guidance and requirements into its loss mitigation procedures. However, its procedures lacked written processes for verifying, calculating, and evaluating the borrowers' financial information to ensure proper determination for FHA-HAMP option. For instance, its procedures did not stipulate verification of the borrowers' loss of income or increase in living expenses. It also did not specify how the income should be calculated or require documentation of the method applied and sources used to determine the gross and net income. In addition, the Authority's policies and procedures did not include an adequate program requirement checklist to ensure that all qualifying criteria are met before approving the borrowers for the FHA-HAMP. Further, the Authority's loss mitigation procedures did not include an effective date or referenced sources to ensure changes and updates to the program requirements were properly applied when determining eligible FHA-HAMP options.

Conclusion

The Authority did not adequately implement FHA-HAMP in accordance with HUD requirements. This condition occurred because the Authority (1) mistakenly thought that its FHA-insured loans were exempted from one of the qualifying requirements for FHA-HAMP and (2) did not have adequate written policies and procedures to ensure that its implementation of FHA-HAMP complied with HUD's requirements. The following table summarizes the actual claims and incentive fees paid and unpaid principal balance of active modified loans associated with the loss mitigation deficiencies cited above.

FHA case number	Partial claim paid	Incentive fee paid	Unpaid principal balance
	Ineligible costs		
105-6387683	$19,902	$500	
105-5539870	27,136	500	
105-5804221	26,515	500	
105-2105142	7,699	500	
105-2747341	5,214	500	
105-5798660	11,086	500	
105-2912604	7,946	500	
105-6446384	7,279	500	
105-2822097	30 646	1,250	$74,857
101-8481635	10,090	1,250	27,384
	153,513	**6,500**	
Totals[7]		**160,013**	**102,241**
	Unsupported costs		
105-7394963	9,682	500	
105-7377414	6,413	500	
105-7534978	56,422	1,250	138,790
	72,517	**2,250**	
Totals		**74,767**	**138,790**

As a result of the loss mitigation servicing deficiencies identified above, HUD paid (1) $160,013 for partial claims and incentive fees for 10 loans that were not eligible for FHA-HAMP, including two active modified loans with unpaid principal balances of $102,241 (2) $941,770 for 124 loans (appendix E) that may not have been eligible for the FHA-HAMP stand-alone partial claim, and (3) $74,767for partial claims and incentive fees for three loans that the Authority did not properly support as eligible for FHA-HAMP, including one active modified loan with an unpaid principal balance of $138,790.

Recommendations

We recommend that HUD's Deputy Assistant Secretary for Single Family Housing require the Authority to

1A. Reimburse HUD $116,777 for claims and incentive fees paid on eight loans that were not eligible for the FHA-HAMP stand-alone partial claim due to noncompliance with the market rate requirement.

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[7] One of the 14 loans (FHA #105-3589300) that were identified with loss mitigation deficiencies did not contain questioned costs.

1B. Reimburse HUD $43,236 for claims and incentive fees paid on two loans that were not eligible for FHA-HAMP due to a failure to successfully complete the trial payment plans.

1C. Indemnify HUD for two active modified loan agreements with total unpaid balance of $102,241[8] that were not eligible for FHA-HAMP due to a failure to successfully complete the trial payment plans.

1D. Support or reimburse HUD $941,770 for claims and incentive fees paid on 124 loans that may not have been eligible for the FHA-HAMP stand-alone partial claim due to noncompliance with the market rate requirement.

1E. Support or reimburse HUD $74,767 for claims and incentive fees paid for three loans for which the Authority did not have adequate support for the borrower's verifiable loss of income or increase in living expenses.

1F. Support or indemnify HUD for one active modified loan agreement with unpaid balance of $138,790[9] for which the Authority did not have adequate support for the borrower's verifiable loss of income or increase in living expenses.

1G. Improve written policies and procedures to include (1) requiring loss mitigation staff to obtain adequate documentation to ensure that the borrower's financial information is properly verified and evaluated and (2) ensuring that all qualifying program criteria are met before approving the borrower for FHA-HAMP loss mitigation options.

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8 Fifty percent loss severity rate is applied to the unpaid principal balance of $102,241 for funds to be put to better use. See appendix A.

9 Fifty percent loss severity rate is applied to the unpaid principal balance of $138,790 for funds to be put to better use. See appendix A.

Scope and Methodology

Our audit period generally covered January 1, 2014, through September 30, 2015. We performed our audit work from November 2015 through April 2016 at the Authority's office located at 60 Executive Park South NE, Atlanta, GA, and our offices located in Jacksonville and Miami, FL.

To accomplish our objective, we

- Reviewed Federal regulations, HUD handbooks, and mortgagee letters;
- Reviewed the Authority's quality control plan and policies and procedures related to loss mitigation;
- Reviewed the Authority's loss mitigation loan files, notes, and account activity statements;
- Interviewed Authority officials and staff;
- Consulted with HUD officials and staff from the National Servicing Center and Quality Assurance Division.

We used the data from HUD's FHA Connection[10] system obtained from the Authority to select our loan samples. The data included 1,355 records of FHA loans that had incentive claims processed between January 1, 2014, and September 30, 2015. We narrowed our universe to 375 loans by including only loans with FHA-HAMP incentive claims that were serviced by the Authority.

During the audit, we selected 25 loans from our universe of 375 loans. The first 10 loans were selected based on the following conditions. The loans (1) were not found on the Authority's internal list of FHA-HAMP loss mitigation loans, (2) had the oldest unpaid date that occurred after the claim processed date, (3) had more than two claims, (4) had an insurance claim due to foreclosure, and (5) had unpaid principal balances of $100,000 or more. For the other 15 loans, we selected 10 loans with an FHA-HAMP partial claim incentive and 5 loans with an FHA-HAMP combination of partial claim and loan modification incentives processed in 2015 with the highest unpaid principal balance. We reviewed 22 of the 25 selected loans. We performed a detailed review of 16 of the 22 loans, including (1) 7 loans with an FHA-HAMP combination partial claim and loan modification, (2) 7 loans with an FHA-HAMP stand-alone partial claim, and (3) 2 loans with a standard loan modification.[11] Due to the market rate issue, we performed a limited review of the remaining six loans with an FHA-HAMP stand-alone partial claim to determine the Authority's compliance with the requirement. We reviewed only 22 of the 25

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[10] The FHA Connection provides FHA-approved lenders and business partners with direct, secure, online access to HUD's computer systems.

[11] The loans were identified as FHA-HAMP; however, the review determined that the loans were approved for a standard loan modification.

loans because the results of review were sufficient to accomplish our objective and did not require additional testing of the remaining three loans.

In addition, we included 124 FHA-HAMP stand-alone partial claim loans identified from our universe of 375 loans to review for compliance with the market rate requirement. We used HUD's Single Family Data Warehouse[12] to obtain the borrowers' mortgage interest rate and the Neighborhood Watch[13] data to compare the mortgage interest rate for accuracy and to obtain the claim and incentive fee amounts for the 124 FHA-HAMP stand-alone partial claim loans. The market rate requirement is met when the borrower's mortgage interest rate is at or below the weekly market rate published by Federal Home Loan Mortgage Corporation (Freddie Mac) plus 25 basis points as established in Mortgagee Letter 2013-32. For the review of the market rate requirement, we used the historical weekly market rates obtained from the Freddie Mac's primary mortgage market survey web page to determine the market rates applicable to the loans reviewed and compare the rates to the borrowers' mortgage interest rate.

We based our conclusions for the 22 loans reviewed on our review of original source documents found in the Authority's FHA loss mitigation loan files and other documents from the Authority's system. We used computer-processed data and verified the data by reviewing hardcopy supporting documentation and comparing data from other systems. We found the data to be adequate to meet our objective. Our results apply only to the loans reviewed and are not projected to the portion of the population we did not test.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our finding and conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objective.

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[12] Single Family Data Warehouse (also referred as Single Family Housing Enterprise Data Warehouse) is a large and extensive collection of database tables organized and dedicated to support the analysis, verification, and publication of Single Family Housing data. The warehouse consists of datamarts developed to support specific business units/communities within the HUD family.

[13] Neighborhood Watch is a secure web-based application designed to provide comprehensive data querying, reporting and analysis capabilities for tracking the performance of loans originated, underwritten, and serviced by FHA-approved lending institutions.

Internal Controls

Internal control is a process adopted by those charged with governance and management, designed to provide reasonable assurance about the achievement of the organization's mission, goals, and objectives with regard to

- Effectiveness and efficiency of operations,
- Reliability of financial reporting, and
- Compliance with applicable laws and regulations.

Internal controls comprise the plans, policies, methods, and procedures used to meet the organization's mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance.

Relevant Internal Controls

We determined that the following internal controls were relevant to our audit objective:

- Program operation - Policies and procedures that management has implemented to reasonably ensure that a program meets its objectives.
- Relevance and reliability of information - Policies and procedures that management has implemented to reasonably ensure that operational and financial information used for decision making and reporting externally is relevant and reliable and fairly disclosed in reports.
- Compliance with laws and regulations - Policies and procedures that management has implemented to reasonably ensure that program implementation is consistent with laws and regulations.

We assessed the relevant controls identified above.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, the reasonable opportunity to prevent, detect, or correct (1) impairments to effectiveness or efficiency of operations, (2) misstatements in financial or performance information, or (3) violations of laws and regulations on a timely basis.

Significant Deficiency

Based on our review, we believe that the following item is a significant deficiency:

- The Authority did not ensure that its implementation of FHA-HAMP complied with HUD's requirements (finding).

Appendixes

Appendix A

Schedule of Questioned Costs and Funds To Be Put to Better Use

Recommendation number	Ineligible 1/	Unsupported 2/	Funds to be put to better use 3/
1A	$116,777		
1B	43,236		
1C			$51,121
1D		$941,770	
1E		74,767	
1F			69,395
Totals	**160,013**	**1,016,537**	**120,516**

1/ Ineligible costs are costs charged to a HUD-financed or HUD-insured program or activity that the auditor believes are not allowable by law; contract; or Federal, State, or local policies or regulations.

2/ Unsupported costs are those costs charged to a HUD-financed or HUD-insured program or activity when we cannot determine eligibility at the time of the audit. Unsupported costs require a decision by HUD program officials. This decision, in addition to obtaining supporting documentation, might involve a legal interpretation or clarification of departmental policies and procedures.

3/ Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an Office of Inspector General (OIG) recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In this instance, the funds to be put to better use represent savings by the FHA insurance fund realized by not having to pay future claims on loans that default.

Appendix B

Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation

Auditee Comments

GEORGIA HOUSING & FINANCE AUTHORITY

Programs administered by the Georgia Department of Community Affairs

Nathan Deal
GOVERNOR

Camila Knowles
EXECUTIVE DIRECTOR

July 8, 2016

Nikita N. Irons
Regional Inspector General for Audit
U.S. Department of Housing and Urban Development
Office of the Inspector General
Office of Audit (Region 4)
Richard B. Russell Federal Building
75 Spring Street, SW, Room 330
Atlanta, GA. 30303-3388

Dear Ms. Irons:

Enclosed is Georgia Housing and Finance Authority's response to the draft audit report on your review of our administration of the Single Family FHA's Home Affordable Modification Program which you provided on June 17, 2016. We anticipate that the responses will be included in the final audit report.

If you have any questions, please contact Christine Antaya, Director of Servicing for State Home Mortgage, at (404)-679-4846, or at Christine.Antaya@dca.ga.gov.

Sincerely,

Stephanie Green
Division Director
Finance Division

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Auditee Comments and OIG's Evaluation

Ref to OIG Evaluation	Auditee Comments

Summary Response: Standalone Partial Claim Findings: OIG Audit-Market Rate Requirement Not Met

Comment 1

There are a total of 9 cases cited by OIG for not meeting the market rate condition for stand-alone Partial Claims. Among them FHA Case #105-6340952 was a HAMP combo and should be removed as a finding for stand-alone Partial Claims.

Comment 2

Georgia Housing & Finance Authority (GHFA) did not consider condition (i) ***the mortgagor's current interest rate is at or below Market Rate***, in the eligibility review of any **HAMP Loss Mitigation option including HAMP** stand-alone **Partial Claim** as we were operating under the variance letter approved by HUD on November 3, 2009 which covered **all HAMP loss mitigation options, including** stand-alone **Partial Claims**. The variance letter was requested and granted because most of GHFA's mortgages are funded with proceeds from the tax-exempt Mortgage Revenue Bonds (MRBs). The interest rates on these mortgages funded by MRBs, are restricted by the Internal Revenue Code. The spread between the yield on MRBs and the mortgage rate is thin, therefore a permanent reduction in the mortgage rate could jeopardize the Authority's ability to meet its debt service obligation to the bond holders and adversely affect the Authority's AAA bond rating.

GHFA applied condition (ii***) the mortgagor's current mortgagor payment is at or below the target monthly payment*** and condition ***(iii) the mortgagor otherwise qualified for FHA-HAMP***. The FHA case numbers and the actual payments are listed below which confirms that the mortgagors' current payment is below the target payment which offers the mortgagors an affordable payment as defined in **HUD Mortgagee letter 2013-32.** GHFA offered the *stand-alone Partial Claim* as a solution to resolve the delinquency, prevent a potential foreclosure and to keep the borrowers in their homes with an affordable payment.

FHA Case# Actual Payment	Target Payment (Listed as New payment on Calculation Sheet)
1. 105-6387683 - $1,673.51	$1859.28
2. 105-5539870 - $966.16	$1274.50
3. 105-5804221 - $1,112.61	$1514.56
4. 105-2105142 - $1,028.48	$1109.63
5. 105-2747341 - $1,024.98	$1087.93
6. 105-5792660 - $1,039.24	$1327.52
7. 105-2912604 - $951.15	$1152.49
8. 105-6446384 - $989.02	$1176.16
9. 105-6340952 - $878.68	*(This was a HAMP COMBO, not a Stand-alone Partial Claim)*

For five decades GHFA has been providing affordable financing for single family residential housing units for low to moderate income first-time home buyers within the State. As a result of its participation in the stand-alone Partial Claim program, GHFA helped 132 families remain in their homes. These families include veterans, elderly, and working families with children. Without GHFA's participation in the stand-alone Partial Claim program, essentially all these homes could have potentially been foreclosed on and GHFA would have filed claims with FHA. By keeping homeownership affordable and sustainable, GHFA avoided filing the full claims against FHA's Insurance Fund for these homes, which would have been significantly more costly to FHA than the partial claims. GHFA operated in accordance with the variance approved by HUD in providing loss mitigation options including stand-alone Partial Claims to eligible homeowners to keep them in their homes.

GHFA shares HUD's mission to create strong, sustainable, inclusive communities and quality affordable homes for all, and we consider HUD a significant partner in our State as we serve low and moderate income households.

Comment 3

<u>**Response to Adequate Policies and Procedures for Implementation of FHA-HAMP**</u>

Georgia Housing & Finance Authority has policies and procedures established for FHA-HAMP. Georgia Housing & Finance Authority consistently used the same procedure to verify, calculate and evaluate borrowers' financial information during the review period. Georgia Housing & Finance Authority updated its policies and procedures for calculating, verifying and evaluating borrowers' financial information effective February 1, 2016.

We accept this recommendation to enhance our policies and procedures and will look for opportunities to evaluate and improve our processes and procedures moving forward.

Audit Results Responses:

FHA Case Number:	Verifiable loss of income or increase in expenses not supported	Successful Completion of trial payments not met	Incorrect partial claim and loan modification calculations
105-6387683	DISAGREE		
105-5539870	DISAGREE		
105-5804221	DISAGREE		
105-2822097		DISAGREE	AGREE
101-8481635	DISAGREE	DISAGREE	
105-7394963	DISAGREE		
105-7377414	DISAGREE		
105-7534978	DISAGREE		
105-3589300			AGREE

Comment 4

Audit Results Responses:

FHA Case Number: 105-6387683

The loan was reviewed for loss mitigation in October 2013, when it was 7 months delinquent. The borrower had a history of delinquency dating back to 2012. The loan was 5 months delinquent in December 2012, and the borrower was able to bring it current in March, but then fell behind again. The borrower's hardship would explain the original delinquency, because she was out of work due to medical issues. The borrower's credit report supports this fact, as the borrower had 6 medical accounts in collections at the time.

The monthly PITI payment at the time of delinquency in March 2013 was $1,428.03. The borrower submitted her initial loss mitigation application in April 2013, after receiving notice that her monthly payment was scheduled to increase to $1,987.81, a jump of $559.78, in June 2013. This payment increase is verifiable and would have been unaffordable to the borrower. It qualified the loan to be considered for FHA-HAMP.

We dispute the contention that the borrower's monthly expenses were calculated inaccurately. There is no evidence that the $285.00 expense for Okinus Inc. was counted twice. On the most recent financial worksheet dated 10/29/13, an installment loan of $285.00 is included. All other debts listed match with the information contained in the credit report, bank statements, and the borrower's financial statement of expenses. GHFA verified the borrower's utilities and the calculations are shown on the financial worksheet signed by the borrower, and backed up by the most recent utility statements.

Comment 5

FHA Case Number: 105-5539870

GHFA verified the borrower's loss of income using information contained in previous loss mitigation applications. At the time the FHA-HAMP trial period plan was approved in October 2013, the loan was 22 months delinquent. The borrower had been attempting to qualify for loss mitigation as early as 2011, and had submitted multiple applications, but had not been found eligible. The borrower claimed in her August 2013 application a loss of income as a result of her husband losing his job. GHFA could verify that he had lost his job, because he had previously provided proof of income to help the borrower qualify for loss mitigation.

In a December 2011 application, the borrower's husband provided proof of his income to be included for the purposes of qualifying for loss mitigation. He provided the following documentation:

- a signed letter asking that GHFA include his income as part of his wife's application
- 2 consecutive check stubs from his employer Delta
- A marriage certificate
- Bank statements, in the name of the borrower, where the husband's pay was deposited

In the August 2013 application, no income was reported by the borrower's husband, and the borrower stated that he had lost his job. The borrower provided the bank statements required by GHFA, which verified that the husband was not receiving any income, as no pay was being deposited into any of the bank accounts. Considering that the husband had previously provided proof of his income, GHFA could reasonably determine that he had no income at the time. This information was used to verify the loss of income.

Mortgagee Letter 2009-23 states, "the Mortgagee must independently verify the financial information by obtaining a credit report (the credit report is not used for credit qualification but Mortgagees are to use for determining indebtedness), and any other forms of verification the Mortgagee deems appropriate." In this instance, GHFA deemed that the information provided was appropriate to determine that the borrower had suffered a reduction in income. There is no requirement that the mortgagee overburden the borrower with unnecessary documentation requests, if it is in the judgment of the borrower that the loan is qualified. There is no requirement that any specific documentation is needed to verify a loss of income.

Comment 6

FHA LOAN # 105-5804221

Borrower stated in his hardship letter dated September 2013 that the cause of default was his spouse failed to make payments. Borrower also stated that an increase in living expenses with no raise added to his financial hardship. Furthermore, family members that came to stay in his home caused an additional increase in expenses. Review of the loan file determined that the borrower was being garnished each pay period for child support through early April 2012. Second, borrower's wife was forced to take furlough days as a state employee for 3 continuous years @ 1-2 days per month with no pay (see letter in file that proves furlough ended December 2011). Next, borrower filed a Chapter 13 bankruptcy in which bankruptcy payments were deducted weekly from borrowers pay. Last, as per bank statements from Feb 2012 – April 2012 grocery purchases averaged about $500 per month but towards the end of 2013 grocery purchases averaged about $300 per month, this expense backs up borrower's explanation of increased expenses due to extended family members. All hardships listed prove that borrower experienced both an increase in expenses and a reduction in net income due to temporary furloughs and garnishments in addition to family obligations.

Comment 7

FHA CASE # 105-2822097

Mortgagee Letter 2011-28 requires that the trial payments are for a minimum period of three months and the borrower make at least three full consecutive monthly payments before final execution of the loan modification or the partial claim. Borrower made three full, consecutive payments before the execution of the loan modification. The three consecutive payments were made on 11/15/2012, 12/14/2012, and 01/31/2013. The borrower made 14 consecutive payments before the execution of the loan modification. The loan modification was delayed due to title issues.

Comment 8

Comment 9

FHA loan number: 101-8481635

The Trial Plan was mailed to the borrower on 02/08/2016. Per the notes on 02/16/2012, borrower received her tax return refund and mailed a check to State Home Mortgage in the amount of $2288.26. The borrower sent a letter which stated she wanted to make six payments. Borrower attempted to make all of trial payments at once with her tax return refund. State Home Mortgage explained to the borrower, she would need to make three consecutive trial payments. State Home Mortgage posted six payments from the amount received from the borrower. After the six payments were posted to the borrower's account, the borrower made three consecutive trial payments of $245.90 starting August 2012. Payments were made on 08/04/2012, 09/14/2012 and 10/10/2012. Three consecutive trial payments were made by the borrower. Borrower successfully completed trial before execution of the loan modification.

Mortgagee Letter 2009-23 Evaluation of the Borrowers' Financial Condition, the Mortgagee must independently verify financial information by obtaining a credit report or other information the Mortgagee deems appropriate. State Home Mortgage pulled the borrower's credit report and the borrower provided detailed financial information to include financial worksheet, pay stubs, bank statements, utility bills and tax return. The outstanding balances were high on the borrower's credit report or the accounts were in collection. The financial documents and the credit report supported the borrower's claim of loss of income and increase in expenses. When the borrower purchased the home, she was working a full time job at ABC Play Skool. Her monthly gross at the time of the purchase was $1207.00. The borrower's gross income at the time of her loan modification was $789.00. A decrease of $418 in her income. Also the borrower had a deficit of income of - $125.86. The borrower experienced a loss of income and increase in expenses (excessive obligation) per the credit report and the financial information submitted by the borrower. State Home Mortgage deemed it appropriate to verify a borrower's loss of income and increase in expenses by reviewing the credit report and requesting the borrower's financial statement, bank statements, pay stubs, utilities bills and tax return.

Comment 10

<u>FHA CASE # 105-7394963</u>

GHFA was able to verify the borrower's loss of income based on a review of the financial information provided in the loss mitigation application. The borrower provided 3 months of bank statements for his primary checking account, covering October 22, 2014 through January 22, 2015. The checking account statements verified that he was paid weekly by direct deposit to this account, and that he suffered a reduction in income during the month of November 2014. The loan, at the time the application was received, was in default and past due 5 months, and had not been paid since October 2014. The borrower had made contact with GHFA and reported his injury and loss of income prior to submitting his loss mitigation application.

GHFA determined the borrower's monthly income at the time of the review based on an analysis of his year to date income through February 13, 2015, as verified by his check stubs from UPS. At that time, his net monthly income was $4,369.12, and his average weekly net check was for $1,008.26.

As shown on the aforementioned bank statements, the borrower received 4 checks during the month of November 2014. The average weekly check was $731.53, which was significantly less than his regular pay, at a difference of $276.73 per check. GHFA reasonably concluded that this reduction in pay was a result of the borrower's time out of work for his injury, and was sufficient to verify the hardship.

The auditors further contend that GHFA did not independently verify the borrower's claim of a $1,690.00 monthly payment for childcare, but this information was unnecessary. Mortgagee Letter 2009-23 states, "the Mortgagee must independently verify the financial information by obtaining a credit report (the credit report is not used for credit qualification but Mortgagees are to use for determining indebtedness), and any other forms of verification the Mortgagee deems appropriate." There is no requirement that every household expense is verified, and it was reasonable and appropriate for GHFA to believe this amount, as it was in the range for a household with 3 small children. The household expenses also had no impact on the loan's eligibility for FHA-HAMP. Even if that expense was removed from the calculations completely, the borrower still would not have had surplus income sufficient to qualify for a formal forbearance, and the loan still would only have qualified for FHA-HAMP. The borrower never claimed that this expense was the reason for his hardship, but only noted that it was an expense he had. The borrower's hardship letter, and previous communications with GHFA, clearly stated that his reduction in income was the reason for the default.

Comment 11

FHA CASE # 105-7377414

The borrower submitted her complete loss mitigation package in December 2014, when the loan was 4 months delinquent. She stated that her hardship began in the summer of 2013 due to a wage garnishment. While GHFA did not verify this fact with specific documentation (due to it being over 12 months in the past), records show that the loan had its first delinquency in June 2013, and continued a pattern of delinquency, being 30 days late or more 13 times in the 18 months after June 2013. These circumstances support the borrower's contention that her delinquency was caused by a reduction in income, as her initial delinquency coincided with the time period she stated that her income was reduced.

The auditor states that the loss mitigation review stated that the borrower did not have a verifiable loss of income, but we believe this to be an error. HUD guidance is clear, and GHFA policy agrees, that only informal or formal forbearance plans are allowed where there is no verifiable loss of income or increase in living expenses. If the loss mitigation underwriter had believed there was no verifiable hardship, then the loan would not have been approved for the FHA-HAMP program.

In addition, GHFA was able to verify an increase in expenses to qualify the loan for FHA-HAMP. The mortgage payment increased from $961.45 to $1,016.52 in January 2014. This is a verifiable increase in expenses and sufficient for the borrower to qualify for FHA-HAMP. The payment increase also coincides with the borrower's delinquency, and her inability to remain current on the increased payments.

Comment 12

FHA LOAN # 105-7534978

Authority deemed borrower's hardship to be Excessive Obligation which in this case ultimately equaled increased expenses. Borrower became delinquent on several debts around August/September 2013 as listed on her Credit Bureau Report (Auto Loan w/GM Financial, Home Equity Loan, Credit cards w/Credit One and Capital One). There is also evidence per bank statements that twice she made mortgage payments to Midland Mortgage on September 4 & November 5 which was not her own debt. In addition, there are several ATM cash withdrawals and e-withdrawals in various amounts ranging from $102- $1600 between September and December that demonstrates expenses outside of what is listed on the bank statements.

Comment 13

FHA CASE # 105-3589300

GHFA agrees with the findings. The Authority has corrected the borrower's principal balance by $56.00.

OIG Evaluation of Auditee Comments

Comment 1 The Authority stated that one of the nine loans (FHA Case #105-6340952) cited for not meeting the market rate condition for a stand-alone partial claim was an FHA-HAMP combination and requested that we remove it from the finding.

We agree with the Authority based on further review of the loan's loss mitigation file and have removed the loan from the finding.

Comment 2 The Authority explained that it did not consider the condition that the mortgagor's current interest rate is at or below market rate, in its HAMP eligibility review because the Authority operated under the variance approved by HUD on November 3, 2009, which the Authority believed to have covered all HAMP loss mitigation options including the stand-alone partial claims.

As stated by the HUD National Servicing Center, which issued the variance to the Authority in November 2009, the approval of the variance applied to the loan modifications referenced to in Mortgagee Letter 2009-35 and did not apply to the FHA-HAMP stand-alone partial claim. In addition, HUD did not approve the Authority's April 11, 2016 variance request to retroactively exempt it from the market rate requirement. Therefore, these loans did not meet the market rate requirement and are not eligible for the FHA-HAMP stand-alone partial claim.

Comment 3 The Authority agreed with our recommendation to improve its policies and procedures.

We acknowledge the Authority willingness to look for opportunities to improve and enhance its processes and procedures, which will be handled during the audit resolution process.

Comment 4 **FHA Case Number: 105-6387683**

The Authority disagreed with our assessment. It stated that the borrower had a history of delinquency dating back to 2012 and that her original delinquency was due to medical issues supported by medical collection accounts. In April 2013, she submitted her initial loss mitigation application after receiving a notice that the monthly payment was scheduled to increase by $560 (from $1,428.03 to $1,987.81) in June 2013. The Authority considered the payment increase as verifiable, which qualified the loan to be considered for FHA-HAMP. The Authority disputed that the borrower's monthly expense for Okinus Inc. was counted twice and stated that it verified the borrower's utilities.

We did not dispute that the borrower had a history of delinquency or that she had a medical issue. The credit report from the loss mitigation file showed that the borrower had medical accounts in collections, but the loss mitigation file did not contain supporting documentation for the medical payments or that the borrower paid the medical costs.

The Authority's financial calculation sheet dated October 28, 2013, showed the borrower's mortgage monthly payment was $1,428.03. Therefore, the $560 increase did not occur at the time the Authority reviewed the borrower for loss mitigation.

The Authority overstated the borrower's expenses by counting a payment of $285 to Okinus Inc. twice, once for the installment loans expense category and again for credit cards expense category.

The Authority showed a monthly utility payment of $800 for a household of two members in its calculations of the borrower's expenses. The signed financial worksheet and utility statements provided in the loss mitigation file did not total $800. The Authority was unable to identify the itemized costs that made up the $800 monthly utility payment.

Therefore, the Authority did not support or verify that the borrower experienced a loss of income or increase in living expenses as required for the FHA-HAMP loss mitigation options.

Comment 5 **FHA Case Number: 105-5539870**

The Authority disagreed with our assessment. The Authority stated that it verified the borrower's loss of income using information from previous loss mitigation applications dating back to 2011. The Authority stated in a December 2011 application, the borrower's spouse provided check stubs from his employer, a marriage certificate, and the borrower's bank statements with his pay deposits. In the 2013 application, no income was reported by the spouse. The Authority verified this by reviewing bank statements that showed no additional deposits. The Authority stated that there is no requirement that the mortgagee overburden the borrower with unnecessary requests of documentation or that any specific documentation is needed to verify a loss of income.

The loss mitigation file the Authority provided for the audit review did not contain documentation from any of the previous loss mitigation applications. When we requested for proof of a loss of income from the borrower's spouse, the Authority staff did not inform us of the previous applications or how it verified that the borrower's spouse had lost his job or had no income.

In the borrower's 2012 tax return, the borrower reported her filing status as head of household with one dependent [her son], and never married for her marital status. Thus, the 2012 tax return information conflicted with the marriage information the borrower's spouse provided to the Authority in the December 2011 application. There was no documentation in the loss mitigation file that showed the Authority addressed the conflicting information with the borrower.

In addition, the loss mitigation file contained bank statements from four different accounts, and none of the account statements included the borrower's spouse name. The borrower's bank statements also contained unexplained deposits of

$800 on May 22, $540 on June 17, and $580 on July 16, 2013 and other small deposits of online banking transfers from another bank account that was not included in the loss mitigation file.

It is not unreasonable to ask for a document to verify the borrower's spouse unemployment nor will it overburden the borrower especially when the borrower was seeking assistance with her delinquent mortgage because her spouse had lost his job.

Therefore, the Authority did not support or verify that the borrower experienced a loss of income or increase in living expenses as required for the FHA-HAMP loss mitigation options.

Comment 6 **FHA Case Number: 105-5804221**

The Authority disagreed with our assessment. The Authority stated its review of the loan file showed that (1) the borrower was being garnished for child support through April 2012, (2) the borrower's spouse was furloughed from 1 to 2 days per month for three continuous years that ended in December 2011, (3) bankruptcy payments were deducted weekly from the borrower's pay, and (4) the bank statements supported the borrower's increase in grocery expenses from an average of $300 to $500 per month. According to the Authority that all hardships listed prove that the borrower experienced both an increase in expenses and a reduction in net income due to temporary furloughs and garnishments in addition to family obligations.

The information from the loss mitigation file the Authority provided for the audit review did not contain information dated back to April 2012 and before with the exception of the borrower's 2012 tax return. The borrower's 2012 tax return did not show information on child support payments, and the file did not contain any additional information supporting child support payments.

The loss mitigation file also did not contain a letter for the spouse's furlough that ended in December 2011. It did not appear that the borrower was married during the furlough period as the borrower reported his filing status as "single" in his 2012 tax return. The borrower also stated that he was the sole borrower of the loan.

We did identify a bankruptcy deduction for $34.62 per week from the borrower's pay statements. The bankruptcy payments were offset by the delay of payments for other expenses that the borrower owed, which reduced the borrower's overall monthly expenses.

The loss mitigation file did not contain bank statements dated from February to April 2012. The file provided for the audit review only included three bank statements (covering from July 12 through October 10, 2013). Additionally, the Authority's financial calculation worksheet showed the borrower had a monthly food expense of $587.97 that conflicts with the Authority's statement of average $300 per month for grocery expense.

Therefore, the Authority did not support or verify that the borrower experienced a loss of income or increase in living expenses as required for the FHA-HAMP loss mitigation options.

Comment 7 **FHA Loan Number: 105-2822097**
The Authority disagreed with our assessment. It acknowledged that Mortgagee Letter 2011-28 requires the borrower to make at least three full consecutive monthly payments before final execution of the loan modification or partial claim. The Authority reasoned that by making the payments on November 15, 2012, December 14, 2012, and January 31, 2013, the borrower made the three full consecutive payments.

The trial payment plan, executed between the Authority and the borrower, became effective August 1, 2012. According to the plan, the borrower agreed to pay the trial payment amount on or before August 1, 2012, September 1, 2012, and October 1, 2012, respectively. Mortgagee Letter 2011-28 states that a trial payment plan is considered to have failed when the borrower does not make the scheduled payment within 15 days of the trial payment plan due date. However, payments were received on August 28, 2012, September 27, 2012, and November 15, 2012. Therefore, the Authority did not ensure that the borrower successfully completed the trial payment plan in compliance with the trial payment plan or the Mortgagee Letter.

Comment 8 **FHA Loan Number: 101-8481635**
The Authority disagreed with our assessment. It referred to the February 16, 2012, note which indicated that the borrower received a tax return refund and sent State Home Mortgage $2,288.26. The Authority stated that the borrower attempted to make all the trial payments with the refund and requested by letter to make six payments. After the Authority posted the six payments, the borrower made the three consecutive trial payments, on August 4, 2012, September 14, 2012, and October 10, 2012.

The trial payment plan, executed between the Authority and the borrower, became effective March 1, 2012. According to the plan, the borrower agreed to pay the trial payment amount of $245.90 on or before March 1, 2012, April 1, 2012, and May 1, 2012, respectively. Mortgagee Letter 2011-28 states that a trial payment plan is considered to have failed when the borrower does not make the scheduled payment within 15 days of the trial payment plan due date. Of the borrower's $2,288.26 payment to the Authority as noted on February 16, 2012, 3 payments of $409.53 were posted to decrease the borrower's delinquency with the remaining

$1,059.67 applied to the borrower's suspense account.[14] On March 9, 2012, and May 16, 2012, it posted $367.30, the previous monthly mortgage amount, from the suspense account to pay down the mortgage. The Authority posted no payments toward the trial payments. The $245.90 trial payment amounts were not posted until August 4, 2012, September 14, 2012, and October 10, 2012. Thus, the Authority did not timely post the trial payment amounts to comply with the trial payment plan. Therefore, the Authority did not ensure that the borrower successfully completed the trial payment plan in compliance with the trial payment plan or the Mortgagee Letter.

Comment 9 **FHA Loan Number: 101-8481635**

The Authority disagreed with our assessment. It stated that it used the borrower's credit report, pay stubs, bank statements, utility bills, and tax return to support borrower's claim of loss of income and increase in expenses. Specifically, the credit report and financial information provided by the borrower showed that the borrower had excessive obligations as supported by accounts with high outstanding balances and collection accounts. In addition, the Authority pointed out that the borrower's monthly gross income when she purchased the house was $1,207, and was $789 when the loan was modified, for a decrease of $418.

Mortgagee Letter 2013-32 states that a defaulted mortgagor or a mortgagor facing imminent default must have experienced a verifiable loss of income or increase in living expenses in order to qualify for a FHA-HAMP. Mortgagee Letter 2009-23 states that mortgagees will be required to maintain records of key data points for verification or compliance reviews. The borrower explained in the hardship letter that she was behind on her mortgage payment because she was working part time. However, the loss mitigation loan file did not contain documentation to verify that the borrower's part-time status created a loss in income or that the borrower went from a full-time to a part-time status, which led to a hardship in paying the mortgage. The Authority's statement that the borrower's monthly gross income decreased by $418 compares the borrower's gross income over a 13-year lapse, as the borrower closed on the house in December 18, 1998, and the Authority reviewed the borrower's information for FHA-HAMP in February 8, 2012. The information in the file did not support a reduction in income. The file also did not contain documentation to support an increase in living expense. Therefore, the Authority did not maintain documentation to support that the borrower experienced a verifiable loss of income or increase in expense.

Comment 10 **FHA Case Number: 105-7394963**

The Authority disagreed with our assessment. The Authority stated that it determined the borrower had a reduction of income during the month of November 2014. The Authority based its determination from the borrower's average weekly net income of $1,008.26 as of February 13, 2015 versus the

[14] The $2,288.26 is calculated as [($409.53 x 3) + $1,059.67].

average weekly income from November 2014 of $731.53 identified from the borrower's bank statement. The Authority also stated that independently verifying the borrower's claim of the $1,690 a month for childcare was unnecessary. The Authority stated that there is no requirement that every household expense is verified. The Authority believed the amount was reasonable and appropriate, as it was in the range for a household with three small children. The Authority stated that even if the expense amount was removed from the calculations, the borrower still would have qualified for FHA-HAMP.

The borrower stated in his hardship letter that he had a work related injury that kept him out of work for approximately three weeks in October 2014 and received workers compensation wages at a reduced rate. The Authority did not request documentation to verify the workers compensation wages. The bank statements in the loss mitigation file showed the borrower received direct deposit payments of

- $707.02 on October 24, 2014 [for pay period from October 12 to October 18, 2014],
- $1,107.74 on October 31, 2014 [for pay period from October 19 to 25, 2014], and
- $843.12 on November 7, 2014 [for pay period from October 26 to November 1, 2014].

These payments conflict with the borrower's claim of income reduction in October 2014. Instead, the Authority assumed that the borrower had a reduction of income during the month of November 2014 based on its comparison with the borrower's year-to-date income as of February 13, 2015 without considering the borrower's income before November 2014 and the number of overtime hours the borrower worked during the months of January and February 2015. The borrower's pay statements for January and February 2015 showed the borrower had an average of more than $400 in gross weekly earned overtime income which may contribute to the difference in pay. The increase in pay for January and February 2015 appeared to result from an increase in income due to overtime hours earned and not that he had a reduction of income in November 2014.

There is no requirement that required the Authority to verify every household expense. However, it would be prudent to verify a household expense with a high dollar amount, and specifically in this case, no payment was found for childcare in the borrower's bank statements. We did not dispute the Authority's reasonableness determination of the childcare expense. However, the Authority did not verify that the borrower incurred the costs for the childcare. Therefore, the borrower's income and expenses should be properly verified before determining the borrower's qualification for FHA-HAMP option based on the waterfall calculations.

Comment 11 **FHA Loan Number: 105-7377414**

The Authority disagreed with our assessment. It stated that while it did not verify the borrower's garnishment of wages with specific documentation, it assessed that the borrower had a reduction in income based on other records. The Authority explained that the records showed that the loan first became delinquent in June 2013 and the delinquency continued 13 of the 18 months thereafter. Additionally, the Authority stated that the worksheet used in its loss mitigation review, which showed the borrower as not having a verifiable loss of income, was an error. Further, the Authority said it verified an increase in the borrower's mortgage payment from $961 to $1,017, for an increase of $55.

Mortgagee Letter 2009-23 states that mortgagees will be required to maintain records of key data points for verification or compliance reviews. The borrower explained in the hardship letter that her hardship began in the summer of 2013 when 2 months of her wages were garnished, and after falling behind, had difficulty improving her financial situation. However, the loss mitigation loan file contained no documentation to verify the garnishment of borrower's wages or to support how the garnishment in wages led to a hardship in paying the mortgage. The Authority acknowledged that it did not verify the garnishment of borrower's wages because the event occurred more than a year ago. It explained that the borrower's loss of income can be supported by records showing when the loan first became delinquent and the subsequent delinquencies. As the documentation to verify the hardship was not obtained, it is necessary for the Authority to document the rationale it used to justify that a verifiable loss of income existed thereby supporting the Authority's overall approval of the loss mitigation action. To address recommendation 1E for this loan, the Authority needs to include in the loss mitigation loan file documentation sufficient to support the key data points for verification such as but not limited to the records mentioned in its comments and written explanations.

Comment 12 **FHA Case Number: 105-7534978**

The Authority disagreed with our assessment. The Authority stated that it deemed the borrower's hardship to be an excessive obligation, which ultimately equaled to increase in expenses. It stated that the borrower became delinquent on several debts around August and September 2013. The Authority identified two payments to Midland Mortgage from the borrower's bank statements that was not her own debt. It also stated that the borrower's cash withdrawals in various amounts ranging from $102 to $1,600 between September and December 2013 demonstrated additional expenses.

As stated in the report, the documents from the loss mitigation loan file did not support that the Authority independently verified that the borrower had experienced a reduction of income or an increase in expenses. The credit report showed the various debts the borrower had and the number occurrences that the payments were late by 30, 60, or 90 days, but it did not specify when the borrower became delinquent. The bank statements showed the borrower made two payments to Midland Mortgage for which the Authority assumed were not the borrower's debt. However, without supporting documentation for the payments we could not determine whether these payments were for the borrower or other expenses. The cash withdrawals shown on the bank statements were made from September 3, 2013 to January 21, 2014 totaling $4,189. Specifically, the $1,600 withdrawal was made on January 21, 2014 after the borrower's hardship letter dated in December 2013. In addition, there were cash deposits made to the borrower's bank account ranging from $120 to $1,400 that totaled $3,580. Without supporting documentation, we cannot determine whether the withdrawals were for the borrower's additional expenses or the source of deposits.

Therefore, the Authority did not support or verify that the borrower experienced a loss of income or increase in living expenses as required for the FHA-HAMP loss mitigation options.

Comment 13 **FHA Case Number: 105-3589300**

The Authority agreed with our assessment. During the audit, the Authority adjusted the borrower's principal and interest amount and applied the overpayment to reduce the borrower's unpaid principal balance.

We acknowledge the Authority's willingness to make the necessary corrections to address the deficiency.

Appendix C

Relevant Criteria

Mortgagee Letter 2009-23, Making Home Affordable Program: FHA's Home Affordable Modification Loss Mitigation Option, Issued July 30, 2009

This Mortgagee Letter announces a new FHA loss mitigation option, FHA-HAMP. FHA-HAMP provides homeowners in default a greater opportunity to reduce their mortgage payments to a sustainable level and became effective August 15, 2009.

The new FHA-HAMP authority will allow the use of a partial claim of up to 30 percent of the unpaid principal balance as of the date of default, combined with a loan modification.

To confirm whether the borrower is capable of making the new FHA-HAMP payment, the borrower must successfully complete a trial payment plan. The trial payment plan will be for a 3-month period, and the borrower must make each scheduled payment on time.

Under FHA-HAMP, the lender may receive an incentive fee of up to $1,250. This total includes $500 for the partial claim and $750 for the loan modification.

Mortgagee Letter 2011-28, Trial Payment Plan for Loan Modifications and Partial Claims under Federal Housing Administration's Loss Mitigation Program, Issued August 15, 2011

A trial payment plan is considered to have failed and is deemed broken when any of the following occurs:

- The borrower vacates or abandons the property or
- The borrower does not make the scheduled trial plan payment within 15 days of the trial payment plan due date.

Mortgagee Letter 2012-22, Revisions to FHA's Loss Mitigation Home Retention Options, Issued November 16, 2012

This Mortgagee Letter includes revised requirements for FHA's loss mitigation home retention options in an effort to reduce the number of full claims against the FHA Mutual Mortgage Insurance Fund by assisting a greater number of qualified, distressed borrowers in retaining their homes. The lenders must begin implementation of the priority order and policies referenced in the Mortgagee Letter no later than 90 days from the issuance date.

Before a lender considers a delinquent borrower for one of FHA's loss mitigation home retention options, the lender must first evaluate the borrower for both informal and formal forbearance plans. Forbearance plans are arrangements between a lender and borrower that may allow for a period of reduced or suspended payments and may provide specific terms for repayment. Informal forbearance plans are oral agreements relating to a period of 3 months or less. Formal forbearance plans are written agreements with a period of greater than 3 months but not more than 6 months. Mortgagee Letter 2013-32 made no change to the criteria.

Informal and formal forbearance plans are the only options available for delinquent borrowers without verifiable losses of income or increases in living expenses. After evaluating a delinquent borrower for informal and formal forbearance plans, FHA's loss mitigation home retention options must be considered in the following order: (1) special forbearances,[15] (2) loan modifications, and (3) FHA-HAMP. Mortgagee Letter 2013-32 made no change to the criteria.

A change to FHA's existing loss mitigation options includes expanding FHA-HAMP to consist of a stand-alone modification, a stand-alone partial claim, or a combination of a loan modification and partial claim. The change was not affected by Mortgagee Letter 2013-32.

A lender may use an FHA-HAMP stand-alone partial claim without an accompanying loan modification, provided the following three conditions are met: "(i) the mortgagor's [borrower's] current interest rate is at or below Market Rate; (ii) the mortgagor's current mortgage payment is at or below the target monthly payment; and (iii) the mortgagor otherwise qualifies for FHA-HAMP." Mortgagee Letter 2013-32 made no changes to the three conditions.

The market rate is defined as a rate that is no more than 50 basis points greater than the most recent Freddie Mac weekly primary mortgage market survey rate for 30-year fixed-rate conforming mortgages (U.S. average), rounded to the nearest 1/8 of 1 percent (0.125 percent), as of the date the permanent modification is executed. The permanent modification is defined as of the time a trial payment is approved by the servicer.

Mortgagee Letter 2013-32, Update to FHA's Loss Mitigation Home Retention Options, Issued September 20, 2013

This Mortgagee Letter supersedes Mortgagee Letter 2012-22 and requires that lenders implement the policies in the Mortgagee Letter no later than December 1, 2013.

The market rate is defined as a rate that is no more than 25 basis points greater than the most recent Freddie Mac weekly primary mortgage market survey rate for 30-year fixed-rate conforming mortgages (U.S. average), rounded to the nearest 1/8 of 1 percent (0.125 percent), as of the date a trial payment plan is offered to a borrower.

To qualify for FHA-HAMP, a defaulted borrower or a borrower facing imminent default must meet all of the following criteria: Unless otherwise indicated, the criteria were the same in Mortgagee Letter 2012-22.

- The household or borrower(s) has experienced a verifiable loss of income or increase in living expenses;

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[15] A special forbearance, available only to borrowers who are unemployed, is a written agreement between a lender and borrower to reduce or suspend mortgage payments.

- One or more borrowers receives continuous income in the form of employment income (for example, wages, salary, or self-employment earnings), Social Security, disability, veterans benefits, child support, survivor benefits, or pensions;[16]
- The borrower's surplus income is less than $300 or less than 15 percent of his or her net monthly income;
- The borrower has not received a stand-alone loan modification or FHA-HAMP in the previous 24 months;
- The borrower meets all applicable eligibility criteria in Mortgagee Letters 2009-23 and 2010-04, which do not conflict with this Mortgagee Letter's guidance,[17]
- The borrower has successfully completed a 3-month trial payment plan, based on the reduced mortgage payment amount, or a 4-month trial payment plan in cases of imminent default;[18] and
- The borrower(s) of record must provide a signed hardship affidavit.

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16 This criterion replaced the criterion in Mortgagee Letter 2012-22, requiring that one or more borrower(s) be currently employed.

17 The criterion in Mortgagee Letter 2012-22 did not include the phrase "which do not conflict with this Mortgagee Letter's guidance."

18 The criterion was not included in Mortgagee Letter 2012-22 to qualify for FHA-HAMP.

Appendix D

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-6387683	**Unpaid principal balance as of 4/28/2016:**	$181,445
FHA-HAMP option approved:	Partial claim	**Date partial claim and incentive fee paid:**	04/18/14
Partial claim amount paid:	$19,902	**Incentive fee paid:**	$500

Condition for Stand-Alone Partial Claim Not Met

Mortgagee Letter 2012-22 requires the borrower receiving an FHA-HAMP stand-alone partial claim to meet three conditions. One condition is that the borrower's current interest rate be at or below the market rate. The market rate was defined as no more than 25 basis points greater than the Freddie Mac weekly primary mortgage market survey rate for a 30-year fixed rate mortgage as of the date the trial payment plan was offered to the borrower. The Authority offered the trial payment plan to the borrower in a letter, dated October 29, 2013. The October 24, 2013, weekly rate from the Freddie Mac Web site covering the October 29, 2013, date was 4.13 percent. Thus, the market rate should not be more than 4.38 percent (4.13 + .25). However, the borrower's interest rate at time of review was 5.25 percent. As the borrower's 5.25 percent interest rate was not at or below the 4.38 percent market rate, the Authority should not have approved the FHA-HAMP stand-alone partial claim option.

Loss of Income or Increase in Expenses Not Verified

Mortgagee Letter 2012-22 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. In the initial hardship letter in April 2013, the borrower stated that she was out of work due to surgery in July 2011, she had unexpected medical expenses, her utilities had increased, and her other expenses had increased by an additional $773 due to student loan payments. In her follow-up hardship letter in September 2013, the borrower stated that she used her 2012 tax return to catch up on her mortgage and was able to get the student loan payments deferred. The borrower explained that she had fallen behind on her mortgage again because she felt her mortgage was unaffordable and requested a loan modification. The borrower indicated that she had not had a raise in 3 years and her expenses had increased. However, the borrower's income information from the loss mitigation loan file did not show that she had experienced a verifiable loss of income. Her income documents showed that she had a gradual increase in income each year. Her gross income was $78,611 for 2011, $80,763 for 2012, and an estimated $89,246 for 2013. The loss mitigation loan file did not contain supporting documentation for the medical expense payments or the $773 student loan payments. Also, the utility bills from the file were not sufficient to determine that the borrower's power bills had increased.

Further, the Authority's calculation of the borrower's monthly expenses was inaccurate and not supported by the documentation in the loss mitigation loan file. The Authority overstated the borrower's expenses by $203 because it included a payment of $285 twice and excluded two payments of $57 and $25 from the credit report in its calculation. The Authority showed that the borrower had a monthly utility payment of $800 for a household of two, but the amount could not be substantiated by the utility bills in the loss mitigation loan file.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-5539870	**Unpaid principal balance as of 4/28/2016:**	$126,349
FHA-HAMP option approved:	Partial claim	**Date partial claim and incentive fee paid:**	05/10/14
Partial claim amount paid:	$27,136	**Incentive fee paid:**	$500

Condition for Stand-Alone Partial Claim Not Met

Mortgagee Letter 2012-22 requires the borrower receiving an FHA-HAMP stand-alone partial claim to meet three conditions. One condition is that the borrower's current interest rate be at or below the market rate. The market rate was defined as no more than 25 basis points greater than the Freddie Mac weekly primary mortgage market survey rate for a 30-year fixed rate mortgage as of the date the trial payment plan was offered to the borrower. The Authority offered the trial payment plan to the borrower in a letter, dated October 16, 2013. The October 10, 2013, weekly rate from the Freddie Mac Web site covering the October 16, 2013, date was 4.23 percent. Thus, the market rate should not be more than 4.48 percent (4.23 + .25). However, the borrower's interest rate at the time of the review was 5.125 percent. As the borrower's 5.125 percent interest rate was not at or below the 4.48 percent market rate, the Authority should not have approved the FHA-HAMP stand-alone partial claim option.

Loss of Income or Increase in Expenses Not Verified

Mortgagee Letter 2012-22 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. The borrower stated in her hardship letter that she and her spouse were behind on their bills and could not make the mortgage payments because her spouse was hurt on the job, released from his job, and unemployed. The borrower did not state that she had an increase in expenses in the hardship letter nor on the hardship affidavit form. The loss mitigation loan file did not contain a verifiable document to confirm that her spouse was unemployed or released from work due to injury.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-5804221	**Unpaid principal balance as of 4/28/2016:**	n/a[19]
FHA-HAMP option approved:	Partial claim	**Date partial claim and incentive fee paid:**	08/29/14
Partial claim amount paid:	$26,515	**Incentive fee paid:**	$500

Condition for Stand-Alone Partial Claim Not Met

Mortgagee Letter 2013-32 requires the borrower receiving an FHA-HAMP stand-alone partial claim to meet three conditions. One condition is that the borrower's current interest rate be at or below the market rate. The market rate was defined as no more than 25 basis points greater than the Freddie Mac weekly primary mortgage market survey rate for a 30-year fixed rate mortgage as of the date the trial payment plan was offered to the borrower. The Authority offered the trial payment plan to the borrower in a letter, dated February 28, 2014. The February 27, 2014, weekly rate from the Freddie Mac Web site covering the February 28, 2014, date was 4.37 percent. Thus, the market rate should not be more than 4.62 percent (4.37 + .25). However, the borrower's interest rate at the time of the review was 5.375 percent. As the borrower's 5.375 percent interest rate was not at or below the 4.62 percent market rate, the Authority should not have approved the FHA-HAMP stand-alone partial claim option.

Loss of Income or Increase in Expenses Not Verified

Mortgagee Letter 2013-32 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. The borrower stated in his hardship letter in September 2013, that he was behind on his mortgage because he trusted his spouse to make the monthly mortgage payment and was not aware that payments were not being made until recently. The borrower stated that he filed for bankruptcy (Chapter 13) in August 2012, thinking that he would be able to keep his home and make a lower monthly mortgage payment, but the bankruptcy only deferred the past-due payments. The borrower stated that the ultimate cause of his hardship was the increase in living expenses with no annual raises to offset his household expenses. He added that other family members had come to stay in his home, which caused an added expense for his household. The documentation provided in the loss mitigation loan file was not sufficient to determine that the borrower had experienced a verifiable increase in living expenses.

[19] This loan was foreclosed upon and conveyed to HUD on May 15, 2015. The property was sold on August 13, 2015.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-2822097	**Unpaid principal balance as of 4/28/2016:**	$74,857
FHA-HAMP option approved:	Partial claim and loan modification	**Date partial claim and incentive fee paid:**	01/26/2014
Partial claim amount paid:	$30,646	**Incentive fee paid:**	$1,250

Successful Completion of Trial Payment Plan Not Met
Mortgagee Letter 2011-28 requires that the trial payment plan be for a minimum period of 3 months and the borrower make at least three full, consecutive monthly payments before final execution of the loan modification or the partial claim. A trial payment plan is considered to have failed when the borrower does not make the scheduled payment within 15 days of the trial payment plan due date. The borrower's trial payment plan became effective on August 1, 2012. According to the plan, the three payments were to be due on or before August 1, September 1, and October 1, 2012. However, payments of $600 were not received from the borrower until August 28, September 27, and November 15, 2012, respectively. Additionally, there was no documentation or notation in the loss mitigation loan file to show why the Authority considered the borrower to have successfully completed the trial payment plan to justify its approval of the FHA-HAMP options.

Partial Claim and Modified Loan Amounts Not Accurate
The Authority submitted and HUD paid a partial claim of $30,646 that exceeded the maximum allowable by $2,378. The Authority calculated the amount by taking the maximum partial claim, which is 30 percent of the unpaid principal balance, and subtracting the $208 in the borrower's account. Mortgagee Letter 2012-22 stated that the maximum partial claim amount must be the lesser of (1) the sum of arrearages, legal fees, foreclosure costs, and the principal deferment or (2) 30 percent of the unpaid principal balance less existing partial claim amounts. Our calculation showed that the result for (1) was $28,268, and the result for (2) was $30,854. Thus, the partial claim amount should not have exceeded $28,268 as it was the lesser of the two options.

Authority's calculation	
Unpaid principal balance	$102,847
30% of Unpaid principal balance	30,854
Less: amount of cash in mortgagor's account	(208)
	30,646

OIG's calculation	
Partial claim amount is lesser of:	
(1) sum of: arrearages; legal fees or foreclosure costs; and principal deferment.	$5,595 1,125 21,548 28,268
(2) Unpaid principal balance 30% of unpaid principal balance less: previous partial claim	$102,847 30,854 - 0 30,854
Maximum allowable partial claim:	**28,268**

In addition, it calculated modified loan and monthly mortgage amounts of $77,514 and $615, respectively. The gross monthly income amount used by the Authority was not supported; therefore, we recalculated the gross monthly income amount based on the pay stubs in the loss mitigation loan file. Our recalculation resulted in modified amounts of $81,299 and $635, respectively.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	101-8481635	**Unpaid principal balance as of 4/28/2016:**	$27,384
FHA-HAMP option approved:	Partial claim and loan modification	**Date partial claim and incentive fee paid:**	09/14/2015
Partial claim amount paid:	$10,090	**Incentive fee paid:**	$1,250

Successful Completion of Trial Payment Plan Not Met
Mortgagee Letter 2011-28 requires that the trial payment plan be for a minimum period of 3 months and the borrower make at least three full, consecutive monthly payments before final execution of the loan modification or the partial claim. A trial payment plan is considered to have failed when the borrower does not make the scheduled payment within 15 days of the trial payment plan due date. The borrower's trial payment plan became effective March 1, 2012, requiring the three trial payments to be due on or before March 1, April 1, and May 1, 2012. However, payments of $246 were not received from the borrower until August 4, September 14, and November 14, 2012. The borrower did not pay consecutively in compliance with requirements. There was no documentation or notation in the loss mitigation loan file to explain why the Authority considered the borrower to have successfully completed the trial payment plan to justify its approval of the FHA-HAMP options.

Loss of Income or Increase in Expenses Not Verified
Mortgagee Letter 2013-32 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. In the hardship letter, the borrower explained that she was behind on her mortgage payment because she was working part time. The loss mitigation loan file contained the borrower's pay stubs and a previous tax return listing a wage amount that supported a part-time status. However, the loss mitigation loan file did not contain documentation to show that working part time created a loss in income, which led to the hardship in paying the mortgage. Thus, the Authority did not obtain sufficient documentation to validate that the borrower had experienced a loss of income or increase in expenses to qualify her for FHA-HAMP.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-7394963	**Unpaid principal balance as of 4/28/2016:**	$155,840
FHA-HAMP option approved:	Partial claim	**Date partial claim and incentive fee paid:**	09/28/15
Partial claim amount paid:	$9,682	**Incentive Fee Paid:**	$500

Loss of Income or Increase in Expenses Not Verified
Mortgagee Letter 2013-32 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. The borrower stated in his hardship letter in January 2015 that his family was behind on the mortgage because of an unforeseen hardship. The borrower stated that (1) he was not working for 3 weeks in October 2014 due to a work-related injury and received workers compensation wages at a greatly reduced rate in comparison to his regular hourly income and (2) the family vehicle had issues and repair costs increased his expenses. The loss mitigation loan file did not contain payment statements from the workers compensation or other documentation to support the borrower's claim of a reduction in income. There was no documentation showing the repair costs in the loss mitigation loan file. Additionally, the borrower's income information in the file showed that he had an increase in income from $68,494 in 2013 to $75,817 in 2015 (based on the Authority's calculated estimated gross income for 2015). The Authority considered the borrower eligible for the FHA-HAMP option because its analysis of the borrower's current monthly financial condition indicated that the he had excessive obligations and, therefore, the Authority did not require verification of loss of income or increase in living expenses.

Further, the Authority showed that the borrower had a deficit monthly income of $953 based on its analysis, which included a $1,690 monthly payment for daycare and preschool tuitions. There was no payment for the tuitions found in the bank statements from the loss mitigation file. The file did not contain third-party confirmation of the daycare and preschool tuitions to support that the Authority independently verified the $1,690 monthly payment.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-7377414	**Unpaid principal balance as of 4/28/2016:**	$126,781
FHA-HAMP option approved:	Partial claim	**Date partial claim and incentive fee paid:**	05/24/2015
Partial claim amount paid:	$6,413	**Incentive fee paid:**	$500

Loss of Income or Increase in Expenses Not Verified

Mortgagee Letter 2013-32 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. In the hardship letter, the borrower explained that her hardship began in the summer of 2013 when 2 months of her wages were garnished. After falling behind, the borrower had difficulty righting her financial situation. However, the loss mitigation loan file contained no documentation to support her garnishment of wages that led to her falling behind on her mortgage payments. In addition, the Authority acknowledged when performing its loss mitigation review that the borrower did not have a verifiable loss of income or increase in expense. Thus, the Authority did not obtain sufficient documentation to support that the borrower had experienced a loss of income or increase in expenses to qualify her for FHA-HAMP.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-7534978	**Unpaid principal balance as of 4/28/2016:**	$138,790
FHA-HAMP option approved:	Partial claim and loan modification	**Date partial claim and incentive fee paid:**	02/06/15
Partial claim amount paid:	$56,422	**Incentive Fee Paid:**	$1,250

Loss of Income or Increase in Expenses Not Verified

Mortgagee Letter 2013-32 states that a defaulted borrower or a borrower facing imminent default must have experienced a verifiable loss of income or increase in living expenses to qualify for FHA-HAMP. Without a verifiable loss of income or increases in living expenses, the only options available to the delinquent borrower are informal and formal forbearance plans. The borrower stated in her hardship letter in December 2013 that within the past 6 months, she (1) had travel expenses due to two deaths in the family, (2) paid rent and utilities for her daughter-in-law for a couple of months, (3) helped her grandchildren and daughter-in-law with moving expenses, (4) helped pay for her grandchildren's medications, and (5) took care of a friend's two children for about a month. The borrower also stated that her salary was reduced.

The documents from the loss mitigation loan file did not support that the Authority independently verified that the borrower had experienced a reduction of income or an increase in expenses as required for the FHA-HAMP option. The file did not contain documentation supporting payments for the travel, rental, and utility expenses that the borrower described in the hardship letter. The borrower's income information in the file did not show that she had a loss of income. On the contrary, the borrower's income information indicated a steady increase from $20,064 in 2011 to $27,934 in 2012, $35,255 in 2013, and estimated income of $37,281 based on her latest pay statement in 2014.

FHA Loss Mitigation Loan File – Summary of Deficiencies

FHA loan number:	105-3589300	**Unpaid principal balance as of 4/28/2016:**	$106,633
FHA-HAMP option approved:	Standard loan modification[20]	**Date partial claim and incentive fee paid:**	07/05/2014
Partial claim amount paid:	Not applicable	**Incentive fee paid:**	$750

Partial Claim or Modified Loan Amount Not Accurate

The Authority modified the borrower's loan balance to $109,277 with a monthly principal and interest amount of $589. Our recalculation of the amounts supported the modified loan balance but not the monthly principal and interest amount. The recalculation showed a monthly principal and interest amount of $587, resulting in a $3 ($589.30 - $586.62) monthly overpayment by the borrower. The difference was due to the Authority's mistakenly not subtracting the amount in the borrower's account, which was used to deduct from the unpaid principal balance. The Authority agreed with our recalculation, adjusted the borrower's principal and interest amount, and applied the overpayment of $56 for the 21 months ($2.69 x 21 months) to reduce the borrower's unpaid principal balance.

[20] Although the loan was approved for a standard loan modification, it was included in the universe of loans as it was identified as FHA-HAMP.

Appendix E

Unsupported Costs: Stand-Alone Partial Claim Loans

#	FHA case number	Borrower's interest rate	Date HUD paid claim	Partial claim amount	Incentive fee amount	Total claim paid
1	105-7674223	3.125	07/04/2015	$2,683	$500	$3,183
2	105-7300841	3.500	10/04/2014	4,946	500	5,446
3	105-6991415	4.125	02/09/2015	1,750	500	2,250
4	105-6195665	4.125	06/29/2015	3,099	500	3,599
5	105-6192494	4.125	04/26/2015	3,835	500	4,335
6	105-6172544	4.125	12/27/2014	22,449	500	22,949
7	105-6042728	4.250	04/20/2015	6,660	500	7,160
8	105-6094941	4.375	09/11/2014	3,705	500	4,205
9	105-6141145	4.375	05/18/2015	4,295	500	4,795
10	105-6962670	4.375	07/21/2014	4,301	500	4,801
11	105-6210958	4.375	05/16/2014	3,043	500	3,543
12	105-8015199	4.375	09/07/2015	4,985	500	5,485
13	105-5333042	4.625	03/08/2015	3,197	500	3,697
14	105-6279430	4.625	05/22/2014	8,403	500	8,903
15	105-5986510	4.625	10/04/2014	26,126	500	26,626
16	105-6317994	4.625	09/20/2015	4,936	500	5,436
17	105-6720758	4.625	08/04/2014	11,491	500	11,991
18	105-6010000	4.625	07/21/2014	1,948	500	2,448
19	105-6306332	4.750	08/15/2015	4,002	500	4,502
20	105-5995614	4.875	11/23/2014	10,557	500	11,057
21	105-6765987	4.875	05/30/2015	6,299	500	6,799
22	105-6931008	4.875	03/29/2014	5,193	500	5,693
23	105-6744392	4.875	04/26/2014	4,577	500	5,077
24	105-6655190	5.000	03/03/2014	6,180	500	6,680
25	105-1804993	5.000	03/21/2014	2,598	500	3,098
26	105-6580136	5.000	07/21/2014	5,556	500	6,056
27	105-5822718	5.125	10/31/2014	3,054	500	3,554
28	105-1123553	5.125	02/01/2015	5,986	500	6,486
29	105-5786895	5.125	04/10/2015	3,502	500	4,002
30	105-6637180	5.125	10/04/2014	1,582	500	2,082
31	105-5681789	5.125	11/02/2014	17,188	500	17,688
32	105-5407355	5.125	07/20/2014	2,515	500	3,015

#	FHA case number	Borrower's interest rate	Date HUD paid claim	Partial claim amount	Incentive fee amount	Total claim paid
33	105-5689231	5.125	08/21/2014	9,347	500	9,847
34	105-5717854	5.125	07/21/2014	4,534	500	5,034
35	105-5487478	5.125	06/29/2015	14,357	500	14,857
36	105-5496962	5.125	03/03/2014	4,467	500	4,967
37	105-5827796	5.125	05/26/2014	3,951	500	4,451
38	105-6318627	5.125	10/04/2014	4,462	500	4,962
39	105-5651735	5.125	07/31/2014	6,399	500	6,899
40	105-1842471	5.125	07/21/2014	8,809	500	9,309
41	105-2188550	5.250	09/06/2014	9,169	500	9,669
42	105-2227546	5.250	05/11/2015	10,273	0	10,273
43	105-6295564	5.250	04/20/2015	3,169	500	3,669
44	105-1600376	5.250	06/07/2015	5,142	500	5,642
45	105-6360963	5.250	09/18/2015	26,951	500	27,451
46	105-6410373	5.250	10/04/2014	7,300	500	7,800
47	105-0321608	5.250	12/27/2014	3,552	500	4,052
48	105-1629521	5.250	11/20/2014	1,813	500	2,313
49	105-6357509	5.250	08/04/2014	5,479	500	5,979
50	105-1510104	5.250	08/03/2015	4,649	500	5,149
51	105-2381968	5.250	03/30/2014	14,916	500	15,416
52	105-2635785	5.375	06/06/2014	5,256	500	5,756
53	105-2141337	5.375	06/08/2015	3,798	500	4,298
54	105-0335417	5.375	04/26/2014	11,108	500	11,608
55	105-2616422	5.375	04/26/2014	6,008	500	6,508
56	105-2599875	5.375	08/29/2014	7,099	500	7,599
57	105-5677857	5.375	07/21/2014	18,771	0	18,771
58	105-5702691	5.375	09/03/2015	11,704	500	12,204
59	105-2565002	5.375	04/26/2014	8,948	500	9,448
60	105-6400773	5.375	07/31/2014	10,492	500	10,992
61	105-6594640	5.500	06/28/2015	6,395	500	6,895
62	105-0925838	5.500	03/10/2014	9,200	500	9,700
63	105-2966307	5.500	12/25/2014	2,248	500	2,748
64	105-0290625	5.500	08/04/2014	6,102	500	6,602
65	105-6497459	5.500	08/02/2015	3,759	500	4,259
66	105-6552339	5.500	12/25/2014	3,438	500	3,938
67	101-9874327	5.500	03/29/2015	3,203	500	3,703
68	105-6631142	5.500	09/26/2014	4,426	500	4,926

#	FHA case number	Borrower's interest rate	Date HUD paid claim	Partial claim amount	Incentive fee amount	Total claim paid
69	105-2691610	5.500	02/27/2015	3,607	500	4,107
70	105-6468968	5.500	10/12/2014	8,123	500	8,623
71	105-2948247	5.500	07/11/2015	7,087	500	7,587
72	105-6590757	5.500	12/26/2014	4,912	500	5,412
73	105-6489288	5.500	08/22/2014	4,594	500	5,094
74	105-0269169	5.500	02/20/2015	4,197	500	4,697
75	105-2872280	5.625	04/07/2014	16,688	500	17,188
76	105-2922568	5.625	04/18/2015	26,356	500	26,856
77	105-2944035	5.625	03/30/2014	20,148	500	20,648
78	105-2956634	5.625	11/28/2014	6,162	500	6,662
79	105-0742052	5.750	09/19/2014	6,669	500	7,169
80	105-3035191	5.750	02/14/2015	2,793	500	3,293
81	105-2823188	5.875	06/15/2015	4,558	500	5,058
82	105-2688170	5.875	07/20/2014	5,969	500	6,469
83	101-8787976	5.875	04/20/2015	9,277	500	9,777
84	105-0153168	5.875	01/17/2014	12,089	500	12,589
85	105-3611496	5.875	10/11/2014	3,470	500	3,970
86	105-5480303	5.875	05/03/2014	6,759	500	7,259
87	101-8865988	5.875	03/10/2014	6,355	500	6,855
88	105-4163262	6.000	05/03/2015	6,184	500	6,684
89	105-0628565	6.000	07/20/2014	7,157	500	7,657
90	105-3864432	6.000	08/04/2014	11,608	500	12,108
91	105-0606206	6.000	06/08/2014	23,128	500	23,628
92	105-2731726	6.000	05/03/2014	7,248	500	7,748
93	105-3644698	6.000	09/26/2014	3,348	500	3,848
94	105-3685850	6.000	04/18/2014	6,609	500	7,109
95	105-3406573	6.125	01/03/2015	18,083	500	18,583
96	101-9776134	6.125	03/08/2015	2,457	500	2,957
97	105-3329068	6.250	10/24/2014	6,644	500	7,144
98	105-3946922	6.250	09/19/2015	6,310	500	6,810
99	105-5257836	6.250	04/26/2014	1,333	500	1,833
100	105-4855312	6.250	05/22/2015	3,048	500	3,548
101	105-5032225	6.250	05/30/2015	6,790	500	7,290
102	105-4970198	6.250	03/02/2015	4,607	500	5,107
103	105-3931747	6.250	04/18/2015	28,552	0	28,552
104	105-5067463	6.250	10/04/2014	13,528	500	14,028

#	FHA case number	Borrower's interest rate	Date HUD paid claim	Partial claim amount	Incentive fee amount	Total claim paid
105	105-3915166	6.250	05/23/2014	10,993	500	11,493
106	105-5118732	6.250	10/23/2014	3,596	500	4,096
107	105-5016382	6.250	06/14/2014	6,306	500	6,806
108	105-3188189	6.375	07/13/2015	2,325	500	2,825
109	105-3259420	6.375	03/01/2015	9,191	500	9,691
110	105-3861544	6.375	10/04/2014	3,943	500	4,443
111	105-3955805	6.375	05/07/2015	4,332	500	4,832
112	101-7273317	6.500	10/23/2014	1,518	500	2,018
113	101-8077785	6.500	06/07/2015	2,658	500	3,158
114	101-7972744	6.750	09/19/2014	4,262	500	4,762
115	105-4333420	6.750	07/20/2014	4,878	500	5,378
116	101-7263746	6.750	08/04/2014	5,366	500	5,866
117	101-9500951	6.875	07/21/2014	5,805	500	6,305
118	101-9457348	7.000	04/26/2015	3,221	500	3,721
119	101-9506750	7.125	09/13/2015	4,045	500	4,545
120	105-4486503	7.250	04/07/2014	5,550	500	6,050
121	101-7534934	7.375	08/04/2014	3,625	500	4,125
122	101-9286482	7.375	04/18/2014	3,093	500	3,593
123	101-7864616	7.375	03/24/2014	2,531	0	2,531
124	101-9523815	7.375	04/26/2014	6,756	500	7,256
Totals				**881,770**	**60,000**	**941,770**

Appendix F

Estimated Losses to HUD From Loss Mitigation Deficiencies

FHA case number	Partial claim paid	Incentive fee paid	Unpaid principal balance as of April 28, 2016	Recommendations					
				1A	1B	1C[21]	1D	1E	1F[22]
105-6387683[23]	$19,902	$500		$20,402					
105-5539870[24]	27,136	500		27,636					
105-5804221[25]	26,515	500		27,015					
105-2105142	7,699	500		8,199					
105-2747341	5,214	500		5,714					
105-5798660	11,086	500		11,586					
105-2912604	7,946	500		8,446					
105-6446384	7,279	500		7,779					
105-2822097[26]	30 646	1,250	$74,857		$31,896	$37,429			
101-8481635[27]	10,090	1,250	27,384		11,340	13,692			
105-7394963	9,682	500						$10,182	
105-7377414	6,413	500						6,913	
105-7534978	56,422	1,250	138,790					57,672	$69,395
See appendix E	881,770	60,000					$941,770		
Totals	**1,107,800**	**68,750**	**241,031**	**116,777**	**43,236**	**51,121**	**941,770**	**74,767**	**69,395**

21 Fifty percent loss severity rate applied to the unpaid principal balances of $74,857 and $27,384.

22 Fifty percent loss severity rate applied to the unpaid principal balances of $138,790.

23 Review of the loan identified two loss mitigation deficiencies. See appendix D for details of the deficiencies. Though each deficiency is separate, the loan is only included in recommendation 1A and not in recommendation 1E to prevent duplication.

24 See footnote 23 above.

25 See footnote 23 above.

26 Review of the loan identified two loss mitigation deficiencies. See appendix D for details of the deficiencies. Though each deficiency is separate, the loan is only included in recommendations 1B and 1C. We did not separately recommend the Authority to reimburse HUD $2,378 in excess of the partial claim amount as recommendation 1B already required repayment of the total partial claim amount. In addition, we did not separately recommend the Authority to revise the loan modification agreement to reflect the correct unpaid principal balance, adjust the borrower's principal and interest to the correct amount, and re-amortize the loan to reflect the correct amounts. These steps would be nulled by recommendation 1C to indemnify the loan.

27 Review of the loan identified two loss deficiencies. See appendix D for details of the deficiencies. Though each deficiency is separate, the loan is only included in recommendations 1B and 1C and not in recommendations 1E and 1F to prevent duplication.